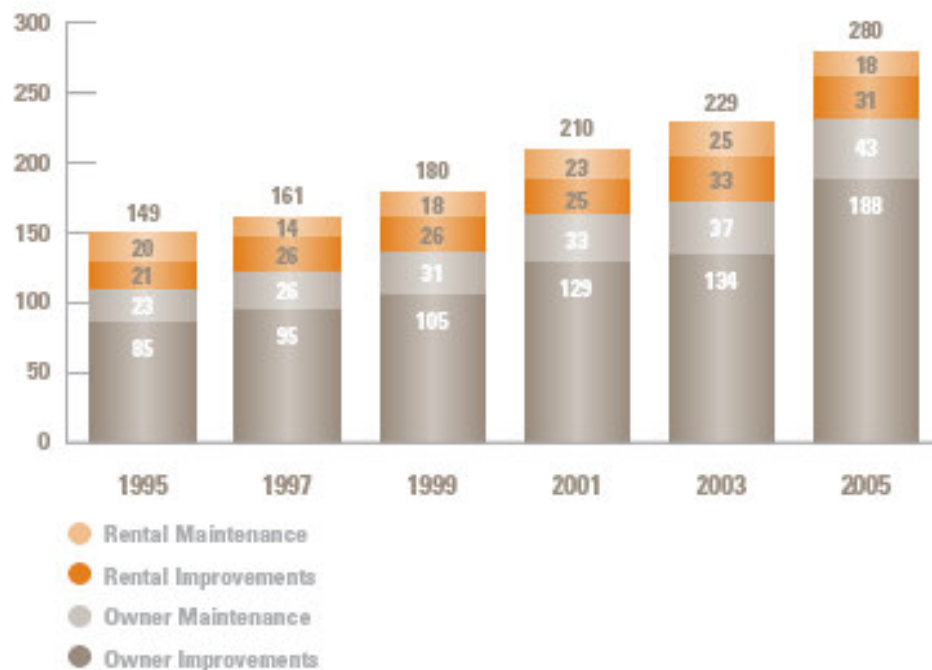


Trends in Housing Rehabilitation

Jim Erchul
Executive Director
Dayton's Bluff NHS
February 21, 2007

The Home Remodeling Market is Approaching \$300 Billion

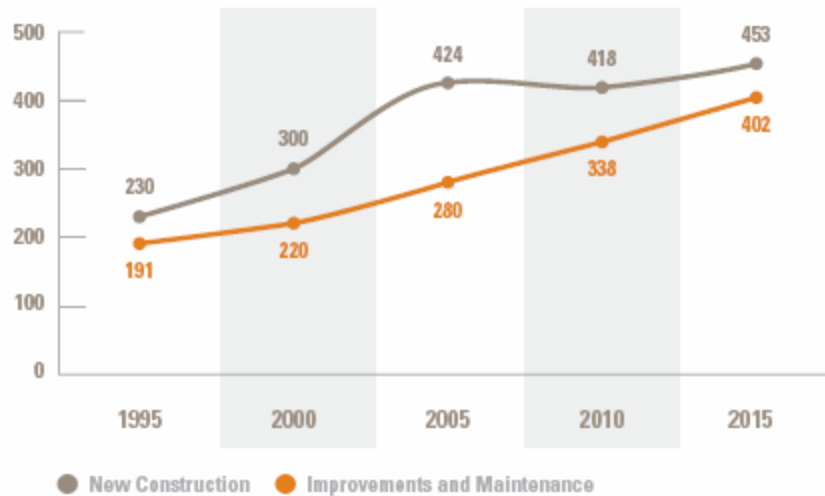


Sources: JCHS tabulations of 1995–2005 American Housing Survey (AHS) and the US Department of Commerce Survey of Expenditures for Residential Improvement and Repairs (c50 reports).

- Nationally, over the last decade (1995-2005), the US home improvement market nearly doubled in size from \$149 billion in 1995 to \$280 billion in 2005. Housing rehabilitation expenditures nearly approach the level of investment in new housing construction. Rehab constitutes about 2% of the nation's economic activity.

With New Construction Slowing from Its Record Pace and Improvement and Maintenance Activity Strengthening...

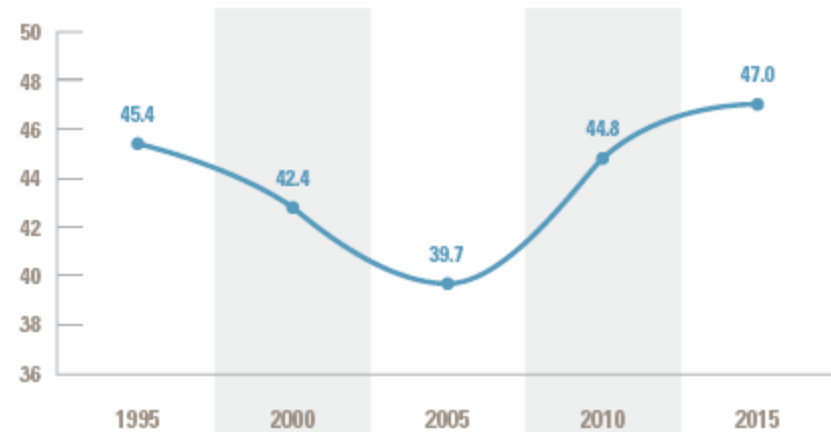
Billions of 2005 dollars



Sources: JCHS tabulations of 1995–2005 AHS and Commerce Department c50 reports, and JCHS and NAHB projections.

...The Remodeling Share of Residential Investment Will Increase Over The Coming Decade

Percent



- According to a study just completed by the Joint Center for Housing Studies at Harvard University titled Foundations for Future Growth in the Remodeling Industry, strong growth in housing rehabilitation will continue. Between 2005 and 2015, homeowner spending on remodeling is projected to increase by 3.7% per year generating 43.6% inflation adjusted growth for the decade, with expenditures exceeding \$400 billion per year by 2015.

Trends supporting sustained growth in housing rehabilitation include:

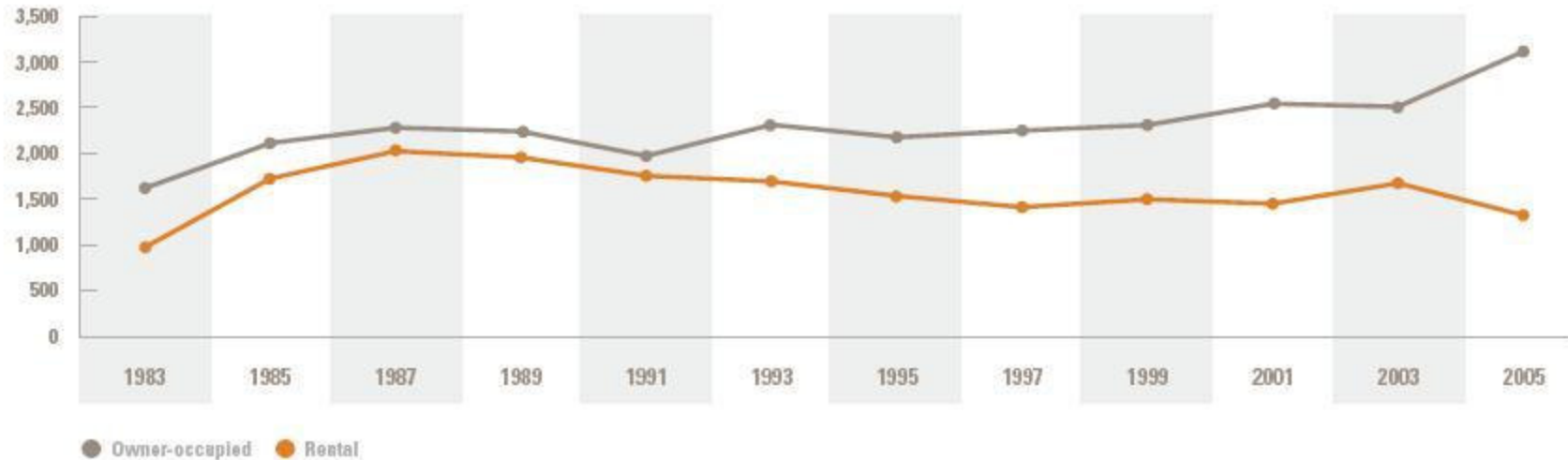
- The Aging Housing Stock
- Rising Energy Prices
- Rebound in Rental Demand
- Concentration of Wealth

Who is going to be rehabbing?

- Generation Xers
- Baby Boomers
- Echo Boomers
- Minority Homeowners
- Upper income Homeowners

Spending on Owner-Occupied and Rental Units Has Diverged Over the Past Decade

Average annual expenditures per unit for improvements and maintenance (2005 dollars)



Note: Owner expenditures for 1983–1993 are JCHS estimates based on US Commerce Department and AHS data.
Sources: Commerce Department c50 reports and JCHS tabulations of 1995–2005 AHS.

- While spending on owner-occupied homes has accelerated in recent years, investment in rental properties has languished. They've dropped almost 35% below their late 1980s peak.

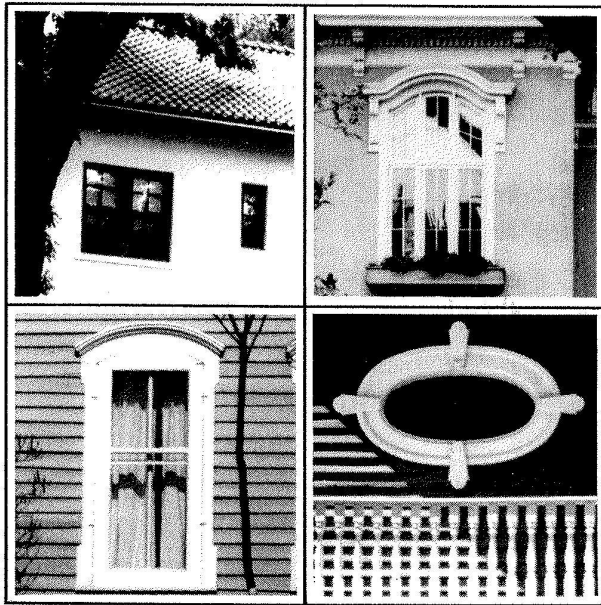
When Homeowners Remodel

- In any given year, about 1.5% of all owner-occupied units undergo significant modification.
- The most common events that prompt owners to make improvements are the purchase of a home, especially an older one, and the addition of a new family member.
- The high turnover of homes has helped to boost remodeling activity in recent years.
- Recent movers (those who bought in the last two years) are responsible for more than 25% of home improvement spending, even though they represent only 13% of all home owners.
- Home buyers who are “trading up” lead spending on remodeling projects.
- Households that add new members are especially likely to make discretionary improvements affecting the size or layout of the home.

What About St. Paul?

- While national trends have and will continue to bode well for housing rehabilitation in general, we have very limited information to judge how St. Paul is doing.

Saint Paul Housing Conditions 1988 Survey



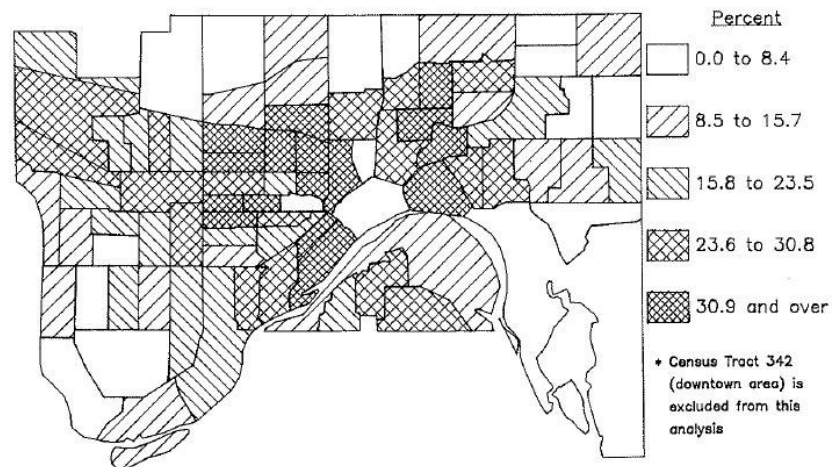
DIVISION OF PLANNING - DEPARTMENT OF PLANNING AND ECONOMIC DEVELOPMENT
CITY OF SAINT PAUL
CITY HALL ANNEX - 25 WEST FOURTH STREET, SAINT PAUL, MINNESOTA, 55102
TELEPHONE 612 - 228-3200

The last time St.
Paul did a city-
wide survey of its
housing conditions
was 20 years ago.

1988 Housing Survey Results

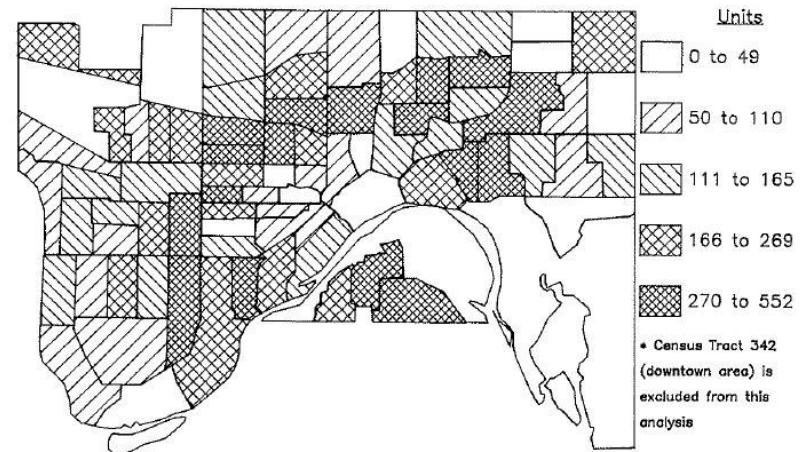
Map 4

ONE AND TWO FAMILY UNITS PERCENT DEFICIENT



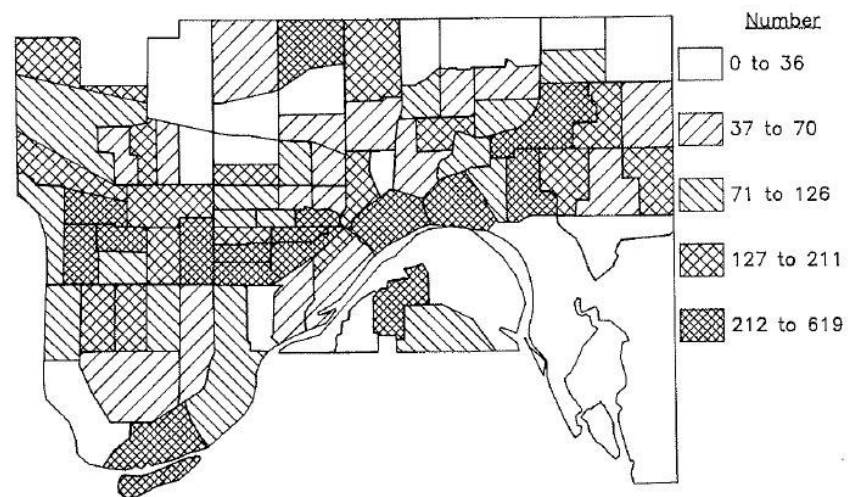
Map 5

ONE AND TWO FAMILY UNITS NUMBER DEFICIENT



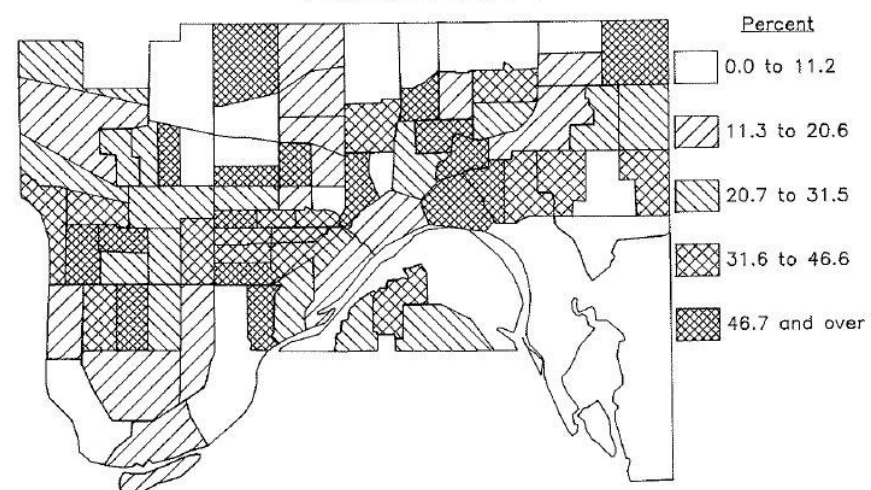
Map 7

MULTI-FAMILY HOUSING UNITS NUMBER DEFICIENT

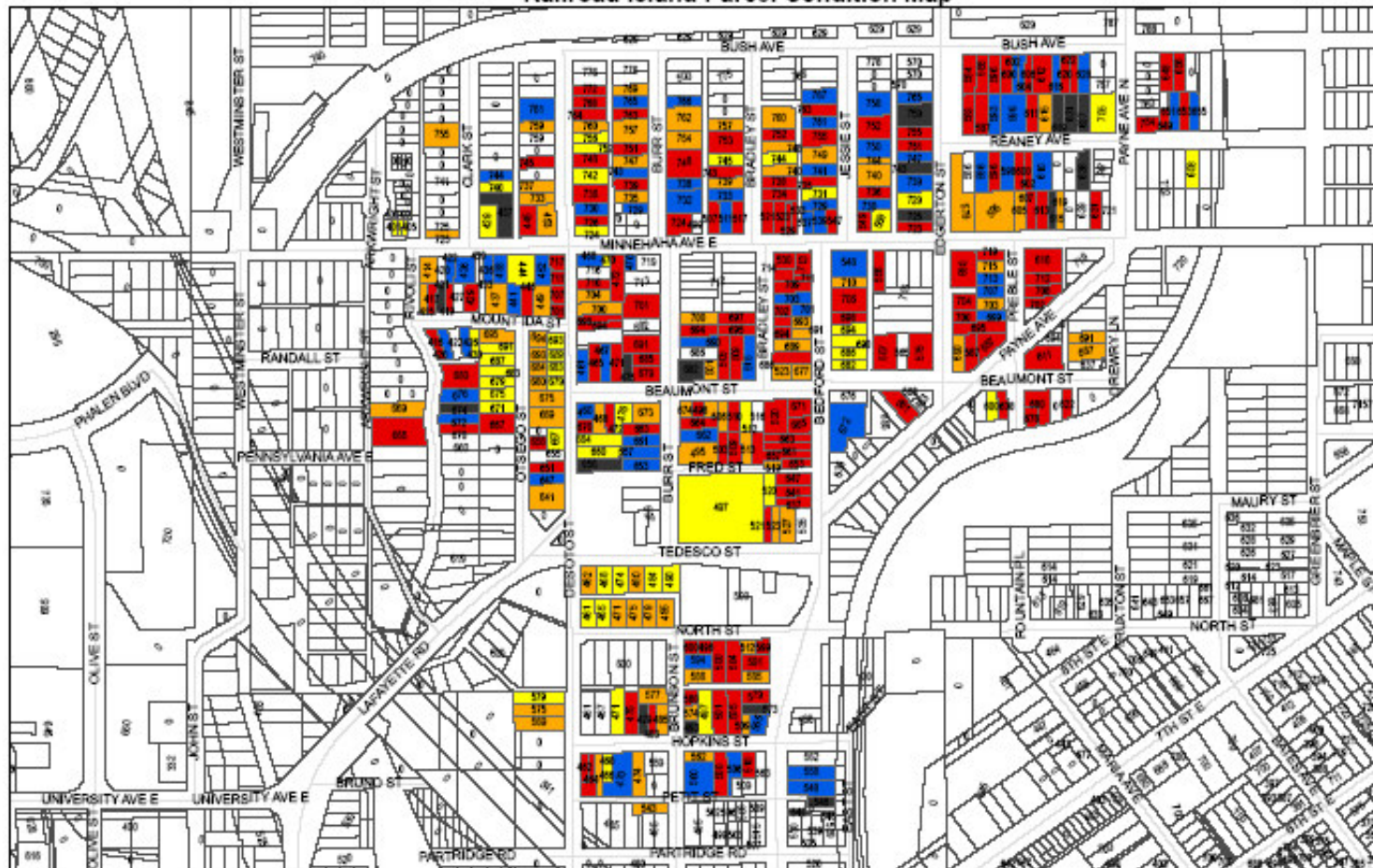


Map 8

MULTI-FAMILY STRUCTURES PERCENT DEFICIENT



Railroad Island Parcel Condition Map



Map Legend

Parcel Condition

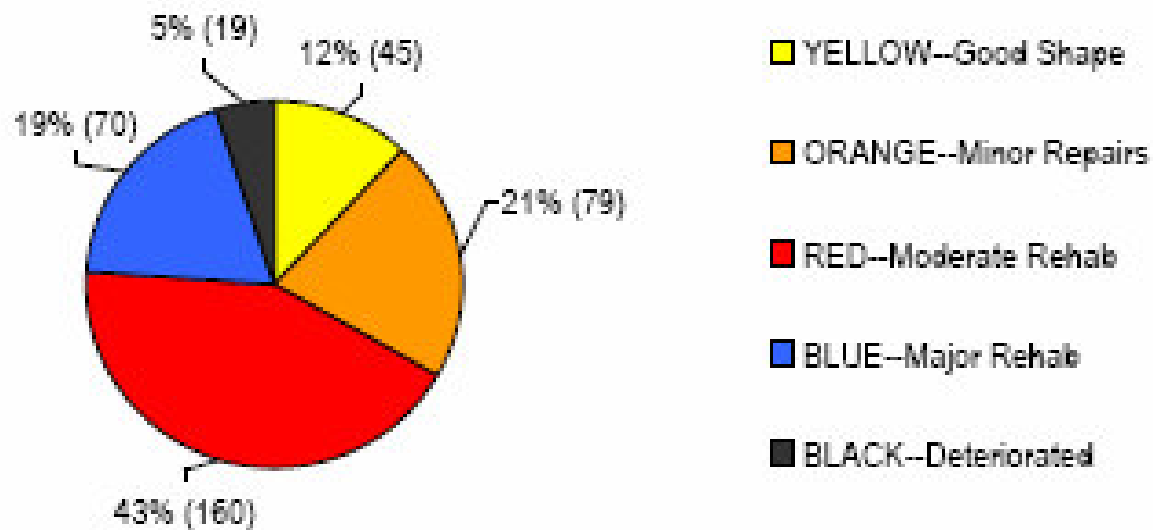
- GOOD CONDITION
- MINOR REHAB
- MODERATE REHAB
- MAJOR REHAB
- DETERIORATED



Map Created by Dayton's Bluff NHS
August 16, 2004
Sources: City of St. Paul, Ramsey County, Census Bureau

Railroad Island Neighborhood

Condition of Residential Buildings by Percent



88 percent of structures are in need of some type of rehab while only 12 percent are in good condition.

Current Housing Condition Results

Table 1 2004 Housing Conditions

Condition	Number of Structures	%
YELLOW--Good Shape	45	12
ORANGE--Minor Repairs	79	21
RED--Moderate Rehab	160	43
BLUE--Major Rehab	70	19
BLACK--Deteriorated	19	5
Total	373	100

Railroad Island Housing Condition Analysis, 2004

Table 2 2004 Total Units

Condition	Single Family	Duplex (units)	Triplex (units)	4 + units	Multi-Unit
Total	227	226	24	100	141
Total Combined Units	718				

Railroad Island Housing Condition Analysis, 2004

Table 3 Rehab Estimates*

Condition	Cost Per Building	# Of Structures	Total Cost
YELLOW--Good Shape	<\$25,000	45	<\$1,125,000
ORANGE--Minor Rehab	\$25,000-\$50,000	79	\$1,975,000-\$3,950,000
RED--Moderate Rehab	\$50,000-\$75,000	160	\$8,000,000-\$12,000,000
BLUE--Major Rehab	\$75,000-\$100,000	70	\$5,250,000-\$7,000,000
BLACK--Deteriorated	>\$100,000	19	>\$1,900,000
Total		373	\$16,350,000-\$24,850,000

**These estimates assume the structures will be brought up to St. Paul city codes.*

Table 4 1994 & 2004 Conditional Analysis Comparison Table

1994 Conditions	2004 Conditions	Number of Structures		Percentage	
		1994	2004	1994	2004
New/Excellent & Above Average	Good Shape	78	45	20%	12%
Average	Minor Repairs	137	79	34%	21%
Below Average, Some Rehab	Moderate Rehab	142	160	36%	43%
Below Average, Major Rehab	Major Rehab	37	70	9%	19%
Very Poor	Deteriorated	3	19	1%	5%
Totals		397	373	100%	100%

1994 & 2004 Conditional Analysis

Housing Conditions in the City of St. Paul's Urban Core

Estimates from the City of St. Paul's 1988 Housing Conditions Survey

# of housing units in St. Paul's low/moderate income census tracts ¹	# and % of housing units in need of minor repair ²	# and % of housing units in need of major repair ³	# and % of dilapidated housing units ⁴	# and % of sound housing units ⁵
59,670 100%	11,613 19.5%	2,855 4.8%	130 0.2%	45,072 75.5%

Estimates for 1997 using the factors of increased housing rehabilitation needs from the 1996 Dayton's Bluff Housing Conditions Survey⁶

# of housing units in St. Paul's low/moderate income census tracts	# and % of housing units in need of minor repair	# and % of housing units in need of major repair	# and % of dilapidated housing units	# and % of sound housing units ⁵
59,670 100%	18,929 31.7%	9,907 16.6%	260 0.4%	30,574 51.3%

Housing Rehabilitation Cost Estimates in the City of St. Paul's Urban Core¹

**Cost Estimates using the # of units in need of rehabilitation
from the City of St. Paul's 1988 Housing Conditions Survey**

Cost for housing units in need of minor repair	Cost for housing units in need of major repair		Total
	<u>Class I (moderate rehab)</u> 76% of these units	<u>Class II (substantial rehab)</u> 24% of these units	
11,613 units x \$17,500 avg. cost/unit \$203,227,500	2,170 units x \$32,500 avg. cost/unit \$70,525,000	685 units x \$72,500 avg. cost/unit \$49,662,500	\$323,415,000

**Cost Estimate increasing the # of units in need of rehabilitation using the factors of
increase from the 1996 Dayton's Bluff Housing Conditions Survey**

Cost for housing units in need of minor repair	Cost for housing units in need of major repair		Total
	<u>Class I (moderate rehab)</u> 76% of these units	<u>Class II (substantial rehab)</u> 24% of these units	
18,929 units x \$17,500 avg. cost/unit \$331,257,500	7,529 units x \$32,500 avg. cost/unit \$244,692,500	2,378 units x \$72,500 avg. cost/unit \$172,405,000	\$748,355,000

Estimate of subsidy required to address rehab needs in St. Paul's Urban Core

- According to HUD's Office of Policy Development and Research, about 40% of the rehab need nationwide is unaffordable without some measure of subsidy.
- Given the low incomes of households in St. Paul's low/moderate income census tracts, HUD's 40% subsidy estimate is probably low.
- If you apply HUD's estimate to the numbers I came up with in 1997, the rehab subsidy needs in St. Paul's low/moderate income census tracts approach \$300,000,000.

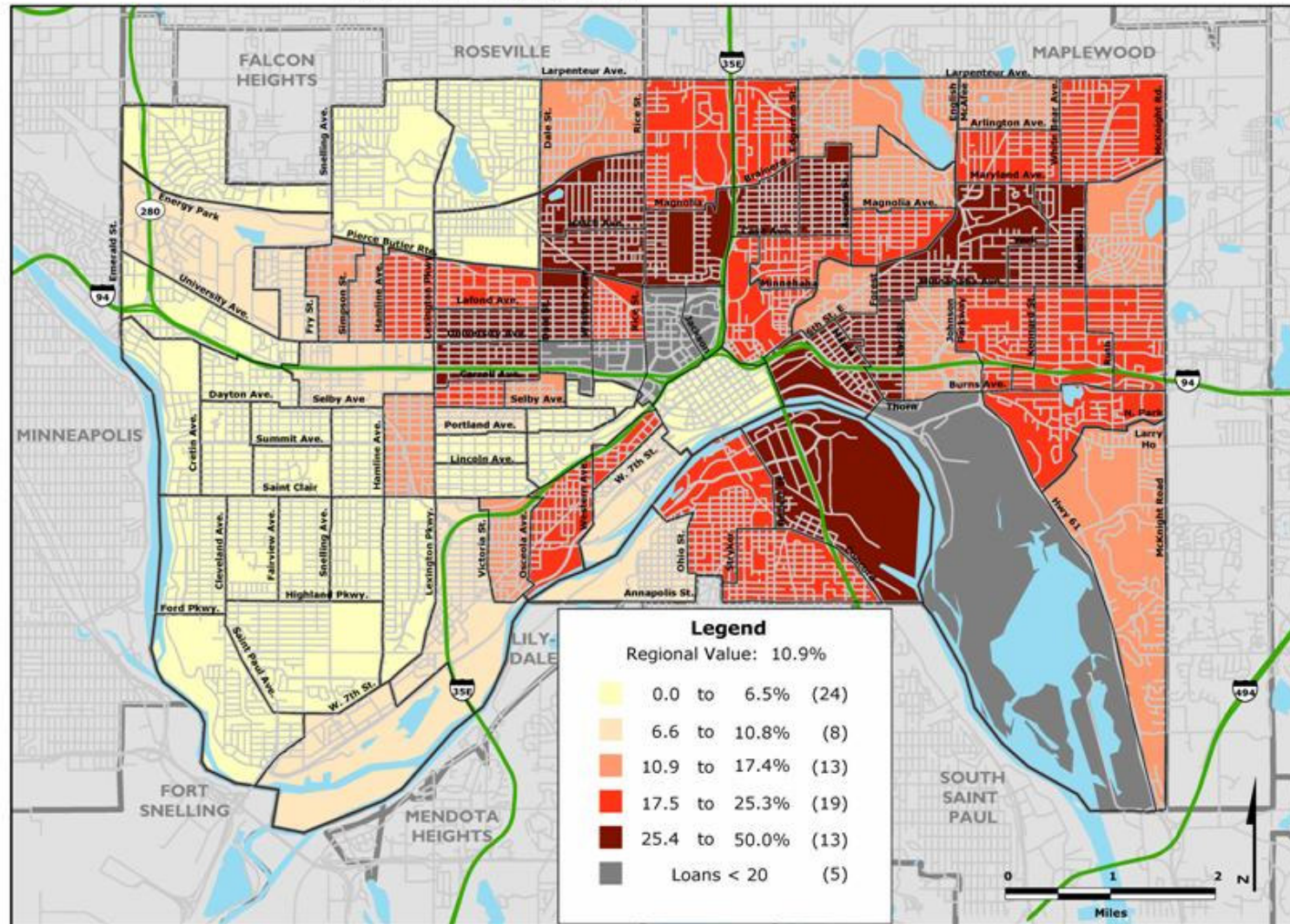
Impact of Subprime Lending

- Nationally the subprime market now accounts for more than 20% of the mortgage market.
- Approximately 80% of these subprime loans are refinances.
- Industry experts estimate that approximately 90% of them involve taking cash out.
- In 2001, about 35% of the total volume of cash out refinancing was for home improvement, but in the subprime market this number is likely much lower.
- Equity take-outs are enhanced by rising home prices.
- Over the last decade we had the perfect environment for subprime lending to flourish.

Subprime Mortgage Loan Definition

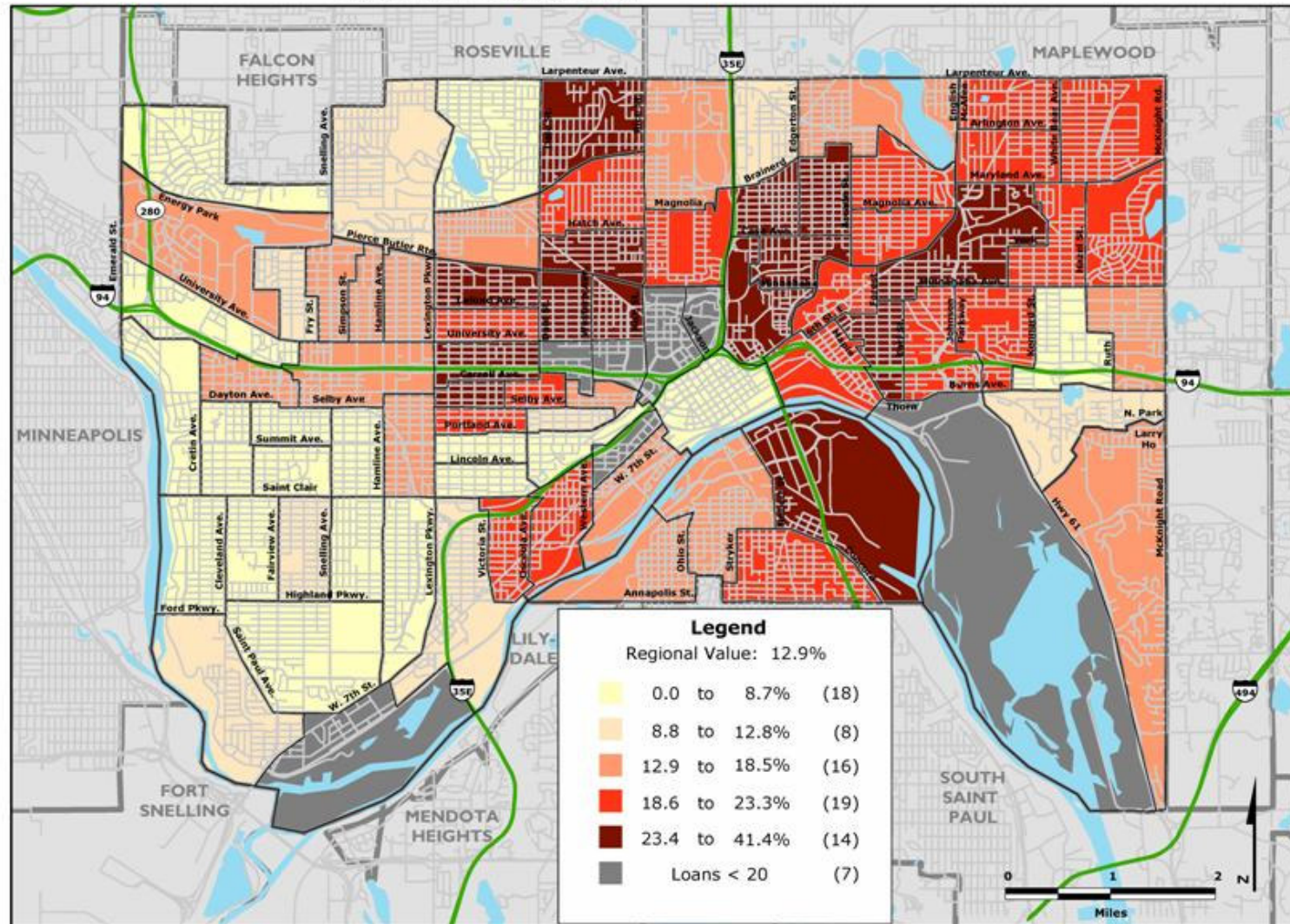
- Subprime mortgage loans are higher interest loans that more often contain underwriting unfavorable to consumers compared to prime loans.
- Not all subprime lending is predatory, but most predatory lending is subprime.
- Subprime lending, in part, reaches low income market previously underserved by prime lending.
- Subprime loans are identified by HMDA as loans that are on average 3 points above treasury rates for first lien loans and 5 points above treasury rates for secondary lien loans.

SAINT PAUL CITY **Percentage of Subprime Home Purchase Loans** **by Census Tracts, 2004**



Data Source: FFIEC: Home Mortgage Disclosure Act, U.S. Census Bureau.

SAINT PAUL CITY **Percentage of Subprime Refinance Loans** **by Census Tracts, 2004**



Data Source: FFIEC: Home Mortgage Disclosure Act, U.S. Census Bureau.

Table 1. Mortgage market share, interest rates and loan performance by market segment

Market Share and Pricing	All Prime Conventional	FHA	Subprime						
			Alt-A or A-Minus			B	C	CC or D	All Subprime
			AA+	AA	A				
Share of All 2001 Single Family Mortgage Originations*	82.32	9.43	0.47	3.42	1.94	0.87	0.66	0.89	8.25
30-Year, Fixed APR Interest Rate**	6.14	6.11	7.20	9.10	9.40	10.60	11.80	12.75	9.83
Denial Rate on Loan Applications***	20.14	11.05	--	--	--	--	--	--	53.63
Performance****									
30-Day Delinquency Rates	1.73	7.02	1.86	5.12	7.73	10.15	11.75	10.88	7.35
60-Day Delinquency Rates	0.31	2.02	0.43	1.41	2.09	2.74	3.57	2.62	2.02
90-Day Delinquency Rates	0.28	2.69	0.42	2.06	3.93	6.39	8.45	9.95	4.04
Foreclosure Rates	0.27	1.76	0.94	3.82	6.26	9.44	12.55	13.61	6.40
Serious Delinquency Rate (90 days DLQ+FCL)	0.55	4.45	1.36	5.88	10.19	15.83	21.00	23.56	10.44
REO Rate	0.15	0.79	0.53	1.44	1.87	3.21	3.92	4.19	2.14
Loss Rate (% of original UPB)	0.01	0.29	0.05	0.51	1.05	1.64	2.80	2.62	1.10

Figure D: Summary of Municipal Costs for Alternative Foreclosure Scenarios

Scenario Number	Characteristics	Direct Municipal Cost	Number of Agencies Involved
1	Foreclosure, Sold at Auction, Never Vacant	\$ 27	5
2	Foreclosure, Sold at Auction, Vacant/Secured	\$ 430	7
3a	Foreclosure, Sold at Auction, Vacant/Unsecured, DOAH	\$ 5,358	9
3b	Foreclosure, Sold at Auction, Vacant/Unsecured, Housing Court	\$ 7,020	8
4a	Foreclosure, Sold at Auction, Vacant/Unsecured, DOAH, Modest Criminal Activity	\$ 5,673	10
4b	Foreclosure, Sold at Auction, Vacant/Unsecured, DOAH, Significant Criminal Activity	\$ 6,753	10
5a	Foreclosure, Sold at Auction, Vacant/Unsecured, Fast Track, Modest Criminal Activity	\$ 13,452	9
5b	Foreclosure, Sold at Auction, Vacant/Unsecured, Demo Court, Modest Criminal Activity	\$ 13,324	9
6	No Foreclosure, Vacant/Unsecured, Modest Criminal Activity, Structure Demolished	\$ 19,227	11
7	Severe case with Fire	\$ 34,199	12

If “taking care of what we have”
is going to going to be a stated
priority in the housing chapter,
we should treat is as one.

The City needs to be in the business of promoting housing rehab in every way it possibly can.

- We focus on what we measure, so completing a city-wide housing conditions survey is a necessary first step in improving the health of our housing stock.
- The Department of License, Inspections and Environmental Protection needs to become as user friendly as possible.
- Much more analysis needs to be performed on the existing data collected by LIEP, and new data may need to be collected to better measure the rehab activity in our neighborhoods.
- A point of sale code enforcement ordinance should be adopted.
- The City should actively engage in marketing campaigns to promote housing rehab

Address subprime lending

- Strict City ordinances regulating the subprime mortgage industry should be adopted.
- Produce a quarterly home mortgage pricing guide
- Sponsor home mortgage check up days
- Work with county to ensure adequate data is collected on all mortgages and made readily available for analysis
- Develop new mortgage backed security products to help people to refinance at reasonable rates. Scarce grant funds are better used for credit enhancement than to make direct loans.

Dealing with foreclosures

- In order to recover the public costs the City incurs dealing with the foreclosures, the City should collect a foreclosure fee or require payment of a substantial subprime mortgage broker registration fee.
- A much larger pool of funds should be allotted to LIEP to fund the Tenant Remedies Act actions. When ever possible, TRA actions should be brought against the owners of vacant properties.
- Demolition should be pursued as the most cost-effective means of treating the worst of the vacant properties. If this strategy is pursued, neighborhoods need to have design guidelines in place to guide the future development of the vacant lots that will result.
- Unless there is an overriding neighborhood revitalization purpose, or it's a narrowly targeted focus on a "foreclosure hot spot", the City should not engage in a city-wide program to purchase rehab and sell vacant houses.
- The City should aggressively use the replacement housing TIF enacted by the Minnesota legislature.